

general financial condition. But during the commercial crises of 1796 and 1825 its store of gold became so seriously depleted that its notes could not have been discharged in cash had not the Government, in the first crisis, permitted it to suspend cash payments and pay its dividend-warrants and make its discount of bills in notes alone, by means of an extension of the note circulation. During the second crisis, when a similar efflux of gold occurred, the restriction of cash payments was again suggested by the Bank, but this grave measure was happily found, in the end, to be needless. On the occurrence of similar embarrassment in the Bank's position in 1839, a committee appointed by the House of Commons recommended (on the valid ground that the solvency of the nation depended upon the condition of the Bank) that the integrity of the notes issued should (in respect of their immediate conversion into cash) be finally placed beyond doubt or apprehension.

When, accordingly, the charter expired in 1844, a Bank Act was passed—Sir Robert Peel affirming that the primary object which he contemplated was " that the paper circulation should conform itself to gold; that it should fluctuate like gold/" Upon the provisions of this Act the constitution and functions of the Bank are founded; and its essential feature is the division of the Bank into an Issue Department and a Banking Department, with a complete separation as though they formed independent institutions, excepting that the amount of notes contained in the banking department is guaranteed by an equivalent store of gold and securities in the issue department.

The purpose of the issue department is the preservation of the instant convertibility of notes into cash, independently of any vicissitudes of trading to which a banking business may be subjected from time to time. The security for the amount of notes for which the Bank is liable is composed of (1) the debt due from the Government, (2) other securities within a prescribed and automatic limit, while (3) the balance to make up, with (1) and (2), the amount of notes in circulation, must consist of gold coin and bullion.¹

¹ Bullion consists of the precious metals (gold or silver) in the mass or lump, as distinguished from coin, or bullion melted down and manufactured into coins. The term is also applied to coined gold and silver.